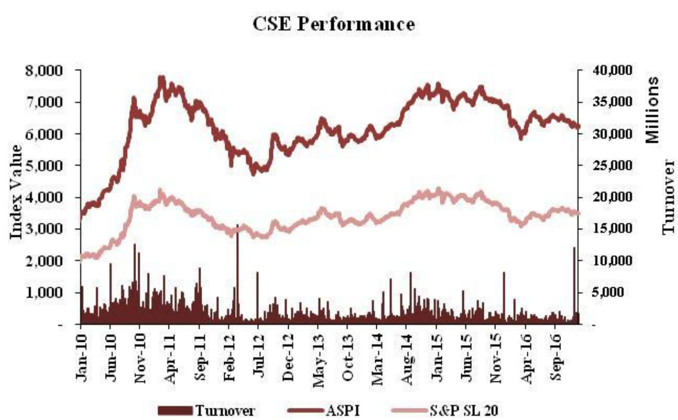
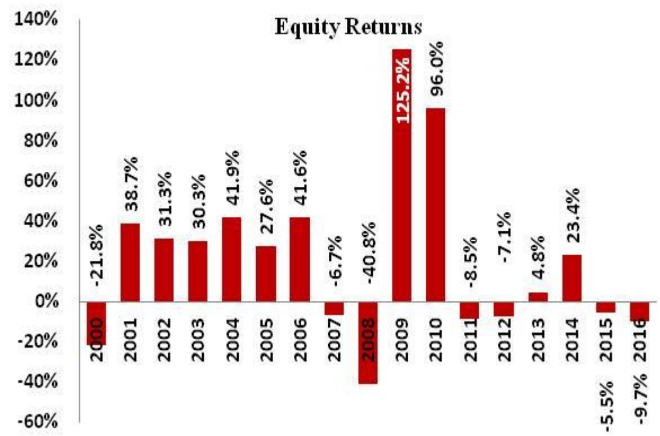
EQUITY FUND REVIEW

Equity Fund Review 2016

The Equity market closed the year on a negative note with the All Share Price Index (ASPI) declining steeply by 9.66% and the more liquid S&P SL 20 index declining by 3.56%. As at December 31, 2016, market PE stood at 12.37x, whilst market capitalization stood at LKR 2.75 trillion.





Source: Colombo Stock Exchange

The unstable political environment and lack of clear direction in policy continued to hinder local macro-economic conditions. A key reason for the negative performance of the CSE was downward pressure on corporate earnings due to increasing interest rates, increases in VAT and other taxes, weak economic conditions and slowdown in consumer demand.

In spite of the weak economic situation the government managed to curtail the budget deficit for 2016 at 5.4% of GDP and expects to be able to restrain the deficit at 4.6% of GDP in 2017 due to numerous tax measures to be implemented amidst IMF pressure to control fiscal deficits. Numerous measures were taken by the Central Bank in 2016 to tighten monetary policy resulting in increasing interest rates and slow down private sector credit growth and dampening investor sentiment. Higher interest rates also saw some investors opting out of equity to invest in more attractive fixed income investment opportunities. However, foreigners were net buyers on the CSE amounting to LKR 1.9 Bn over the year.

Despite weak market conditions the NDB Wealth Growth Fund and the NDB Wealth Growth & Income Fund recorded stellar returns compared to the market supported by timely asset allocation and stock selection decisions. The NDB Wealth Growth Fund outperformed the ASPI and the S&P SL20 by 8.74% and 2.64% respectively whilst the outperformance of the NDB Wealth Growth and Income Fund was 13.79% (against the ASPI) and 7.69% (against the S&PSL20). Further, the NDB Wealth Growth and Income Fund declared a dividend of Rs. 2.50 per unit during 2016.

Performance Period	NDB Wealth Growth Fund	NDB Wealth Growth & Income Fund	ASPI	S&PSL20
Year 2016	-0.92%	4.13%	-9.66%	-3.56%

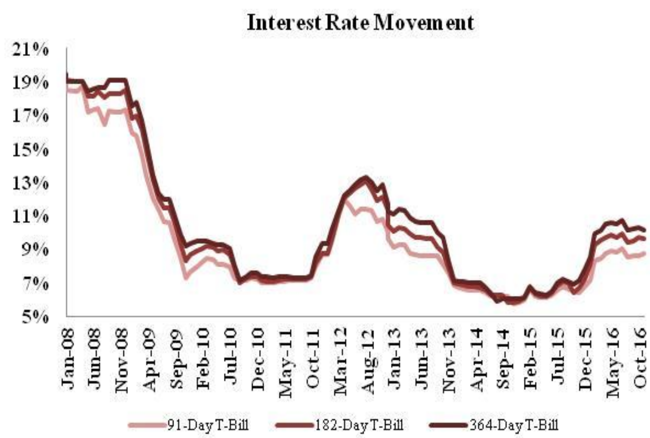
Higher interest rates, taxation and weak investor sentiment amidst lack of policy direction by the government will continue to drive investors out of equity markets. On this backdrop we expect corporate profitability to come under pressure and the market to remain lackluster in the short to medium term.

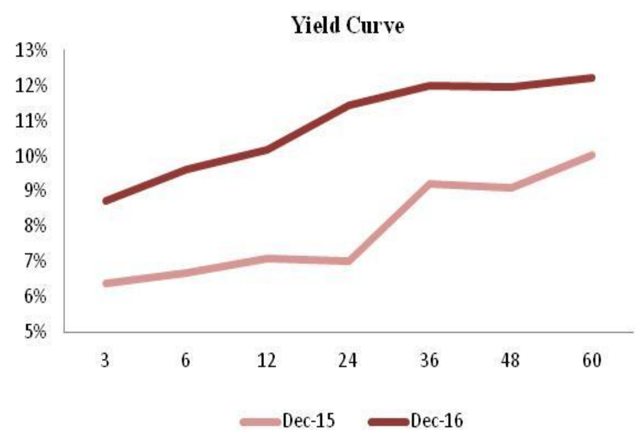
FIXED INCOME FUND REVIEW

Fixed Income Fund Review 2016

Interest rates increased during 2016 with the 364-day T-Bill rate closing the year at 10.17% from 7.11% levels observed at the beginning of the year. Interest rates rose amidst the Central Bank of Sri Lanka (CBSL) resorting to several monetary tightening measures during the year. The CBSL increased the Standing Deposit Facility Rate (SDFR) to 7.00% and the Standing Lending Facility Rate (SLFR) to 8.50% (an overall increase of 1.00% over 2016) and the Statutory Reserve Ratio (SRR) by 1.5% to 7.50% with a view of mopping up excess liquidity and curtailing the high growth in credit that was observed in 2016.

Interest rates were further seen moving up owing to foreign fund outflows that were observed during the year. Foreigners were net sellers of rupee denominated bills and bonds amounting to LKR 166 Bn in 2016, with investors seeking attractive risk adjusted interest rates following the US federal rate hike.





Source: Central Bank of Sri Lanka

Sri Lanka's inflation increased in 2016 with annual average inflation rising to 4.0% whilst year-on-year inflation accelerated to 4.5% in December with VAT revisions driving up prices of goods and services. We believe inflation will edge up further in 2017 owing to supply disruptions on account of the prevailing drought conditions and the rupee depreciation increasing prices of imported goods.

In this backdrop, the fund returns increased in line with rising interest rates although there was a lag in the ramp up period to catch up with prevailing interest rates mainly due to the disparity in the maturity profile of the existing portfolio compared to the rapid rise in market interest rates. Going forward the fund returns are expected to normalize and reflect existing market interest rates.

		NDB Wealth Gilt Edged Fund	NDB Wealth Income Fund	NDB Wealth Money Fund	NDB Wealth Money Plus Fund	Short Term LKR Treasury Fund	NDB Wealth Islamic Money Plus Fund
YTD Performance *(after fees and taxes)*		20.19%	8.00%	8.94%	8.81%	8.49%	7.75%
Dividends	*29-Jan-16*	Rs. 0.10 per unit	Rs. 0.35 per unit				
	28-Apr-16	Rs. 0.15 per unit					
	25-Jul-16	Rs. 0.15 per unit	Rs. 0.45 per unit				
	27-Oct-16	Rs. 0.15 per unit					

The NDB Wealth Gilt Edged Fund declared a total dividend of Rs. 0.55 per unit and the NDB Wealth Income Fund declared a total dividend of Rs. 0.80 per unit during 2016.

We expect interest rates to see upward pressure in 2017 with foreigners opting to exit out of emerging markets on the backdrop of expected US federal rate hikes resulting in foreign fund outflows. Further the country's foreign debt repayment schedule is also expected to exert pressure on both interest rates and the exchange rate. Growth in credit granted to the private sector is expected to ease from the levels observed in 2016 following the lag effect of monetary tightening measures taking effect. However, if the government manages to secure significant foreign funding via international bond issuances, loan syndications and FDIs, interest rates may be kept under control.